

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

Overview of the Railroad Retirement Board

Mission

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.

Major Program Areas

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries; but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and

taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is reinsured through the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because they became unemployed while working in another State or because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the RUIA in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

Railroad Retirement Act

Under the RRA, retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

The primary source of income for the railroad retirement and survivor benefit program is payroll taxes paid by railroad employers and their employees. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and legislation enacted in 2001 allows for the investment of railroad retirement funds in non-governmental assets, as well as in governmental securities. This legislation also established the National Railroad Retirement Investment Trust (NRRIT), whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2005, the RRB trust funds realized a net of \$3.4 billion, representing over 39 percent of RRB financing sources (excluding transfers to/from the NRRIT), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

Railroad Unemployment Insurance Act

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees. The latest RRB financial report on the unemployment and sickness insurance system indicated that, with the exception of small, short-term cash flow problems in 2007 and 2008, experience-based contribution rates will keep the system solvent. Projections show quick repayment of the loans even under the most pessimistic assumption.

Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds and two deposit funds. Assets under the control of the NRRIT are not reflected in the financial statements, but are included in the Statement of Social Insurance under the Required Supplementary Stewardship Information.

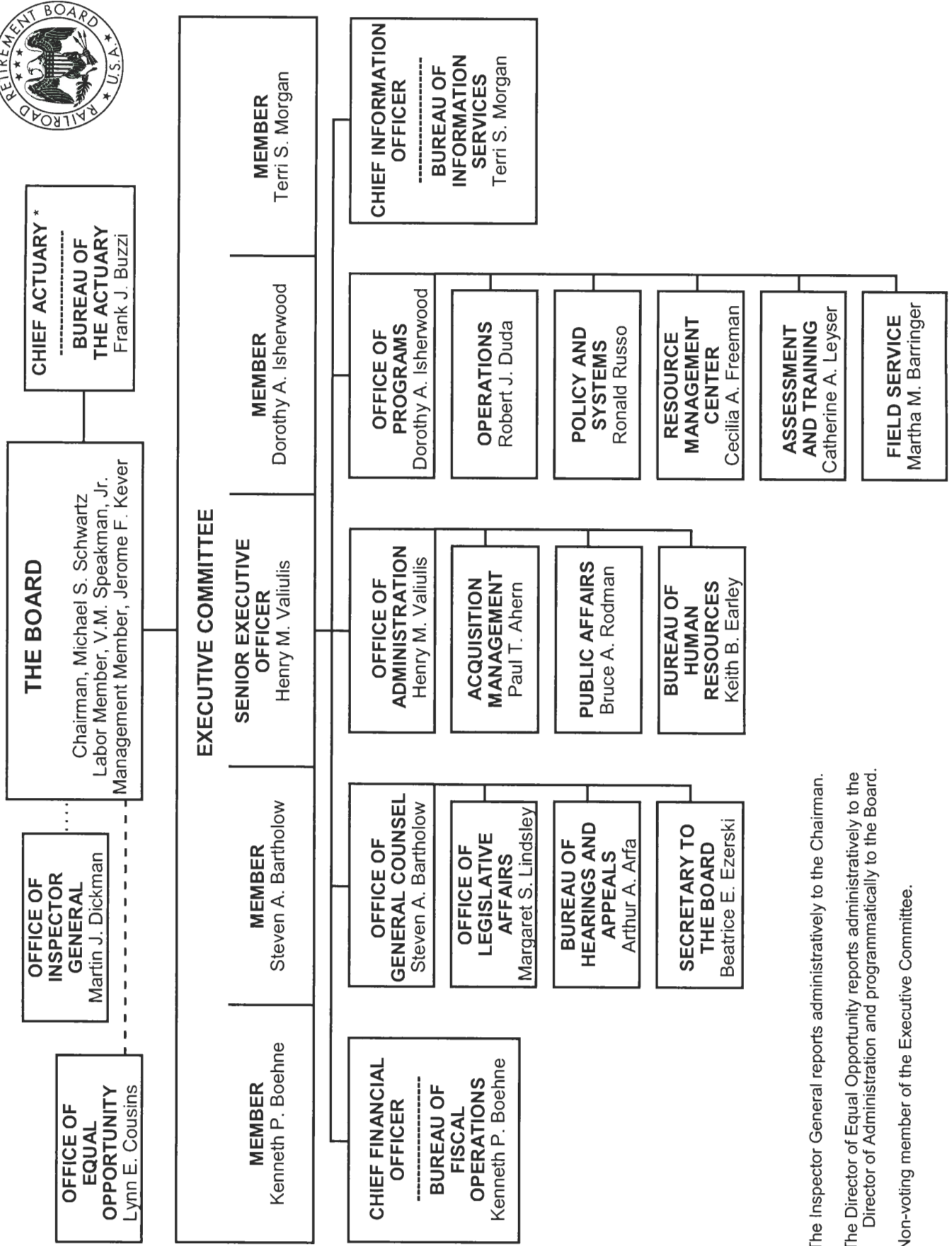
RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and professionals to develop and operate the extensive data processing systems needed for maintaining earnings records, calculating benefits, and processing payments, and provide other support functions. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance, and personnel specialists. The Inspector General employs auditors and investigators to detect any waste, fraud, or abuse in the benefit programs.

The RRB's headquarters are located at 844 N. Rush Street in Chicago, Illinois. At September 30, 2005, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States as shown on page 12.

U.S. RAILROAD RETIREMENT BOARD

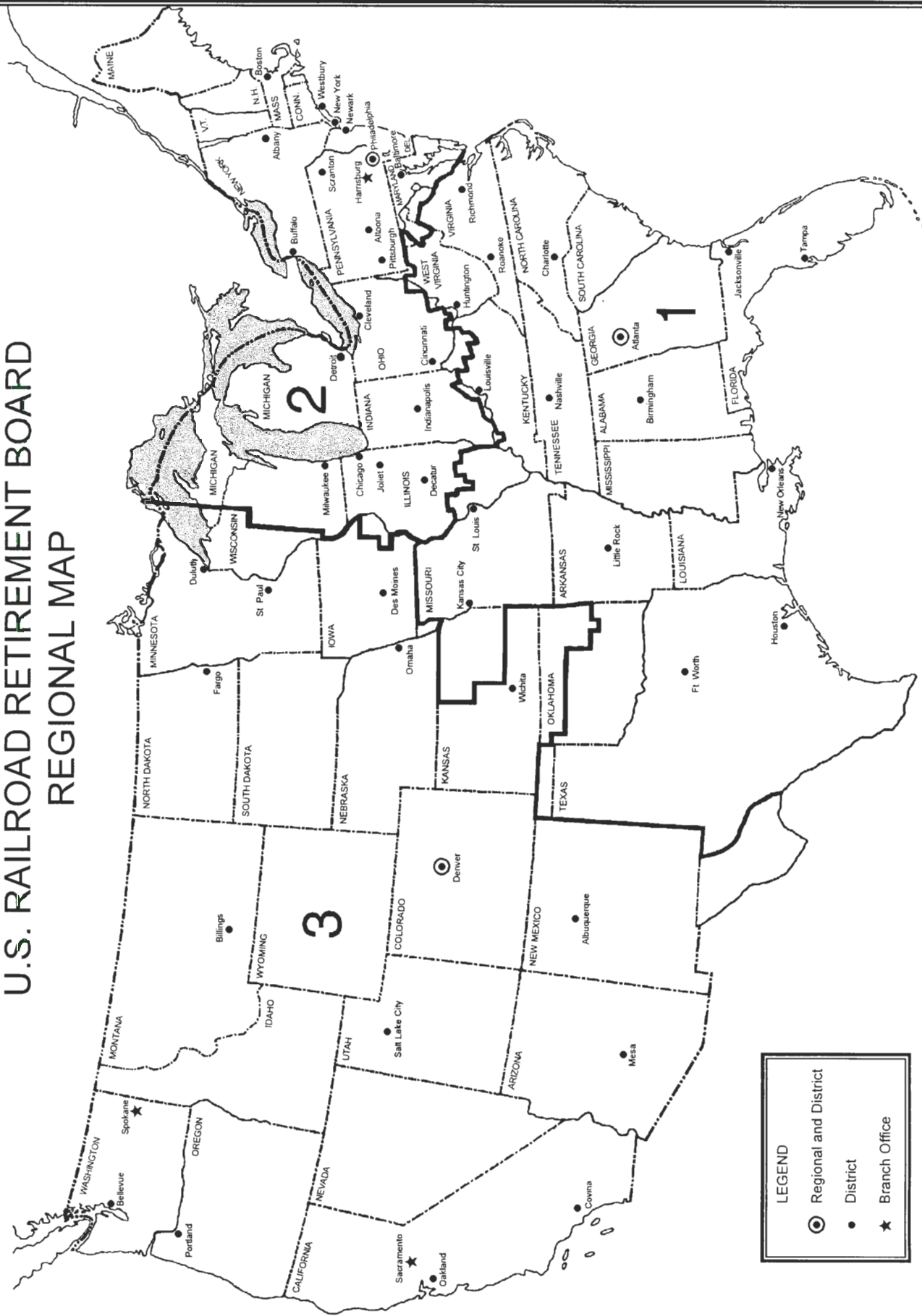


..... The Inspector General reports administratively to the Chairman.

- - - The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

* Non-voting member of the Executive Committee.

U.S. RAILROAD RETIREMENT BOARD REGIONAL MAP



07-05

Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current administrative expenses and amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities.

Shown below are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

Net Position, Financing Sources, and Benefit Payments (millions)

<u>NET POSITION AT SEPTEMBER 30</u>	<u>2005</u>	<u>2004</u>
Social Security Equivalent Benefit Account	\$216.9	\$434.2
Railroad Retirement Account	184.4	224.5
Railroad Retirement Administration Fund	5.9	1.4
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	94.2	79.9
Administrative Expenses	7.5	7.7
Limitation on the Office of Inspector General	.2	.1
Dual Benefits Payments Account	11.4	12.5
Federal Payments to the Railroad Retirement Accounts	.4	.3
Total	<u>\$520.9</u>	<u>\$760.6</u>
<u>FINANCING SOURCES FOR FISCAL YEAR</u>		
Social Security Equivalent Benefit Account	\$5,492.2	\$5,440.8
Railroad Retirement Account	3,503.8	3,760.7
Railroad Retirement Administration Fund	110.2	109.7
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	86.3	118.7
Administrative Expenses	(.2)	(.2)
Limitation on the Office of Inspector General	7.5	6.9
Dual Benefits Payments Account	105.2	117.6
Federal Payments to the Railroad Retirement Accounts <u>1/</u>	<u>442.2</u>	<u>435.2</u>
Total	<u>\$9,747.2</u>	<u>\$9,989.4</u>
<u>BENEFIT PAYMENTS FOR FISCAL YEAR <u>2/</u></u>		
Social Security Equivalent Benefit Account	\$5,545.2	\$5,257.3
Railroad Retirement Account	3,540.9	3,648.2
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	29.1	37.0
Sickness Insurance	43.5	45.6
Dual Benefits Payments Account	<u>106.3</u>	<u>117.3</u>
Total	<u>\$9,265.0</u>	<u>\$9,105.4</u>

1/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

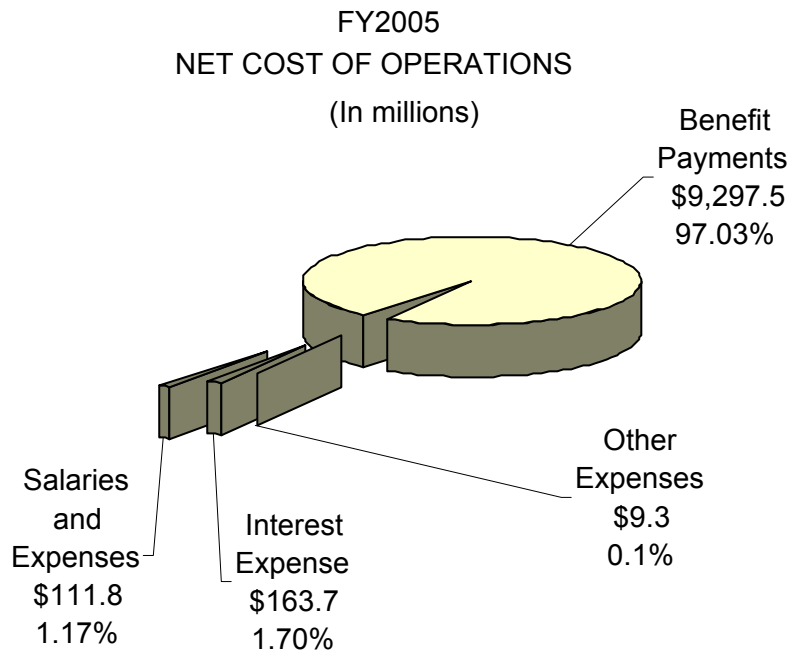
2/ Net of recoveries and excludes SSA benefit payments.

Comparison of Net Cost of Operations and Financing Sources

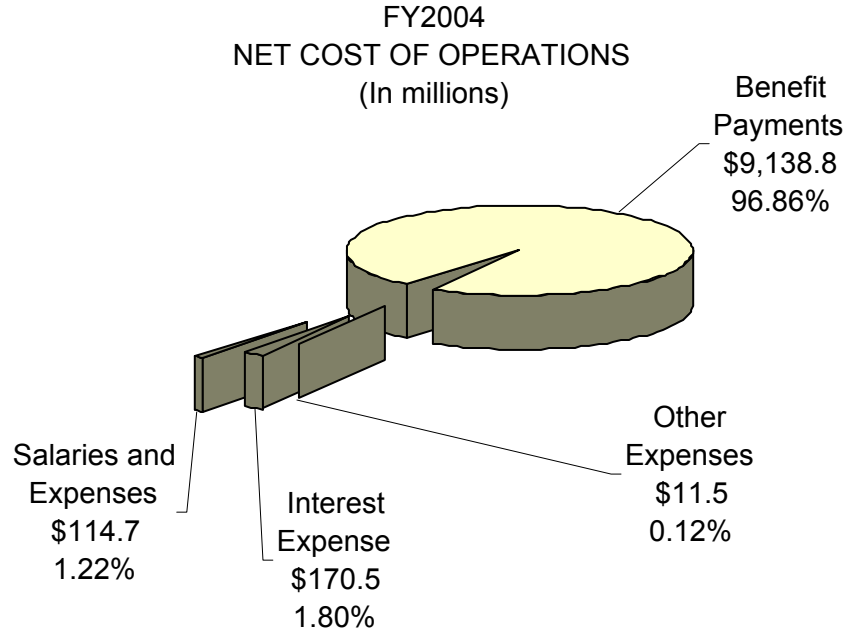
The net cost of operations for fiscal years 2005 and 2004 were \$9,544.8 million and \$9,396.3 million, respectively. Amounts in the RR Account not needed to pay current administrative expenses are transferred to the NRRIT. Amounts in the SSEB Account not needed to pay current benefits and administrative expenses are transferred to either the NRRIT or the RR Account. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2004 to fiscal year 2005 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2005 and 2004 is shown on the following pages.

NET COST OF OPERATIONS (In millions)

	FY 2005	FY 2004	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	\$163.7	\$170.5	\$(6.8)	(4.0)%
Salaries and expenses	111.8	114.7	(2.9)	(2.5)
Benefit payments – RRB	9,297.5	9,138.8	158.7	1.7
Other expenses	9.3	11.5	(2.2)	(19.1)
Subtotal	\$9,582.3	\$9,435.5	\$146.8	1.6%
Less: Earned revenues	37.5	39.2	(1.7)	(4.3)
Net cost of operations	\$9,544.8	\$9,396.3	\$148.5	1.6%



Totals \$9,582.3 million, excluding reimbursements and earned revenues of \$37.5 million.



Totals \$9,435.5 million, excluding reimbursements and earned revenues of \$39.2 million.

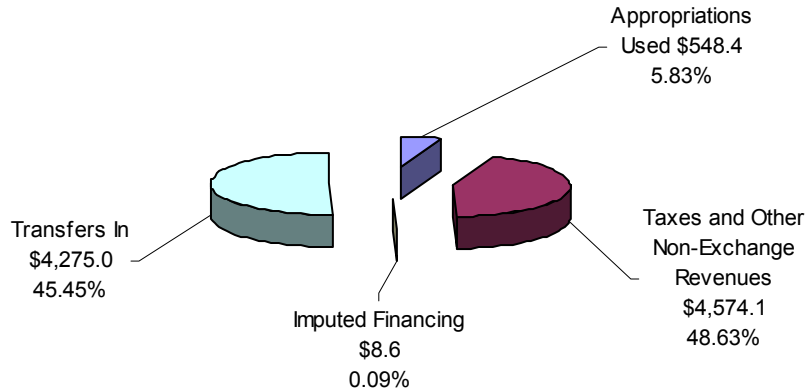
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2004 to fiscal year 2005.

FINANCING SOURCES
(In millions)

	<u>FY 2005</u>	<u>FY 2004</u>	<u>AMOUNT OF INCREASE (DECREASE)</u>	<u>PERCENT OF INCREASE (DECREASE)</u>
Appropriations used	\$ 548.4	\$ 552.3	\$ (3.9)	(0.7)
Taxes and other non-exchange revenues:				
Payroll taxes	4,538.5	4,421.4	117.1	2.6
Interest revenue and other income	49.7	45.9	3.8	8.3
Carriers refunds – principal	(14.1)	(4.8)	(9.3)	193.8
Subtotal	<u>\$4,574.1</u>	<u>\$ 4,462.5</u>	<u>\$ 111.6</u>	<u>2.5</u>
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	8.6	9.9	(1.3)	(13.1)
Transfers in:				
Financial Interchange, net	3,368.9	3,421.3	(52.4)	(1.5)
NRRIT	809.0	1,564.0	(755.0)	(48.3)
Other	97.1	129.8	(32.7)	(25.2)
Subtotal	<u>4,275.0</u>	<u>5,115.1</u>	<u>(840.1)</u>	<u>(16.4)</u>
Subtotal	\$9,406.1	\$10,139.8	\$(733.7)	(7.2)
Less: Transfers out to NRRIT	0.0	586.0	(586.0)	(100.0)
Loss Contingency	<u>100.0</u>	<u>0</u>	<u>100.0</u>	<u>-</u>
Total	\$9,306.1	\$ 9,553.8	\$(247.7)	(2.6)

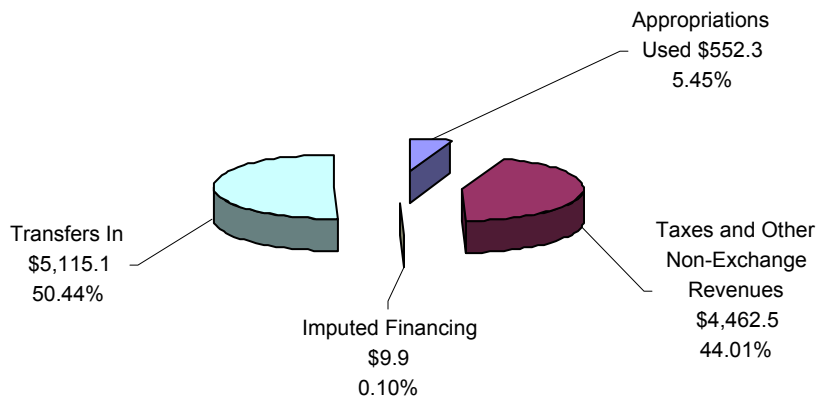
FINANCING SOURCES (In millions)

FY 2005



Total Financing Sources \$9,406.1 million, excluding \$100 million loss contingency.

FY 2004

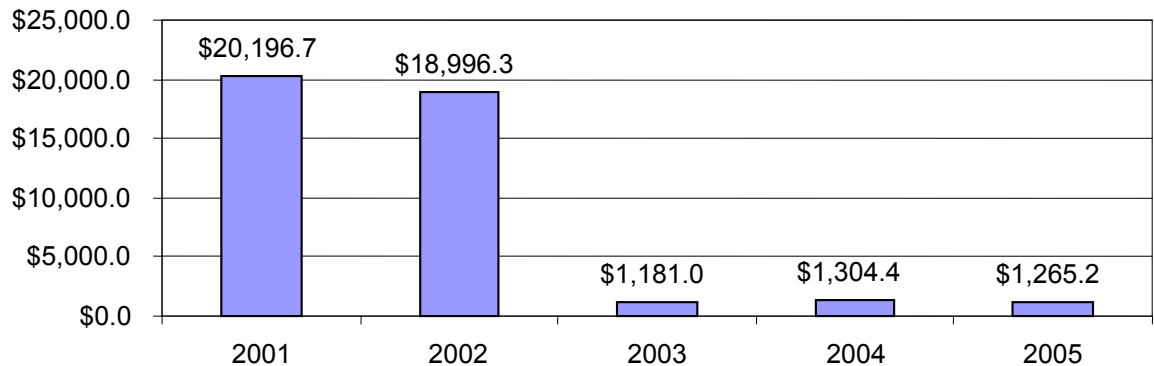


Total Financing Sources \$10,139.8 million, excluding transfers to the National Railroad Retirement Investment Trust of \$586 million.

Railroad Retirement Investments

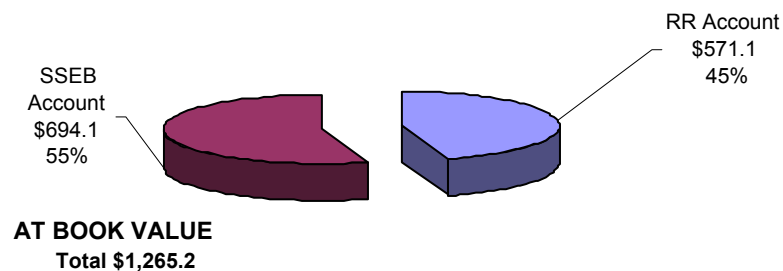
The book value of all railroad retirement investments, including accrued interest, decreased to \$1,265.2 million as of September 30, 2005, from \$1,304.4 million on September 30, 2004. The graph below reflects the railroad retirement book value of investments from September 30, 2001, through September 30, 2005.

INVESTMENT BALANCES (AT BOOK VALUE) AT SEPTEMBER 30, 2001 - 2005 (In millions)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2005.

RAILROAD RETIREMENT INVESTMENTS AS OF SEPTEMBER 30, 2005 (In millions)



Railroad Retirement Account

On September 30, 2005 and 2004, the book values of the RR Account investments, including accrued interest, totaled \$571,093,294 and \$627,605,867, respectively. The balance on September 30, 2005, consisted of \$569,975,000 in 3.875 percent par value specials (with market value equal to face value) maturing on October 3, 2005, and \$1,118,294 in accrued interest. The balance on September 30, 2004, consisted of \$626,589,000 in 3.5 percent par value specials (with market value equal to face value) maturing on October 1, 2004, and \$1,016,867 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

Social Security Equivalent Benefit Account

On September 30, 2005 and 2004, the book values of the SSEB Account investments, including accrued interest, totaled \$694,111,271 and \$676,769,854, respectively. The balance on September 30, 2005, consisted of \$692,653,000 in par value specials of 3.875 percent maturing on October 3, 2005, and accrued interest of \$1,458,271. The balance on September 30, 2004, consisted of \$675,574,000 invested in par value specials of 3.5 percent maturing on October 1, 2004, and accrued interest of \$1,195,854.

National Railroad Retirement Investment Trust

The NRRIT was established pursuant to Section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) that was signed into law on December 21, 2001. The RRSIA set February 1, 2002, as the date that the NRRIT was to become effective.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT's Board of Trustees is comprised of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six Trustees.

In fiscal year 2005, the RRB did not make any transfers to the NRRIT. Transfers of \$586 million, \$19.188 billion, and \$1.502 billion were made to the NRRIT in fiscal years 2004, 2003, and 2002, respectively. During fiscal year 2005, the NRRIT transferred \$809 million to the RRB for the payment of tier 2 benefits.

At the end of fiscal year 2005, the NRRIT reported cash and investments with a market value of about \$28.4 billion. For fiscal year 2005, the NRRIT reported almost \$3.1 billion in net realized and unrealized gains and more than \$386 million in interest and dividends. Total NRRIT fiscal year 2005 reported administrative expenses (including investment management fees) amounted to about \$19 million. Also, the NRRIT has reported that for the year ended September 30, 2005, their investment portfolio achieved a 14 percent rate of return. This compares favorably to its composite benchmark index which increased 13 percent for the year. This information reported by the NRRIT has not been reviewed by the NRRIT's auditors. Also, this information has not been consolidated into the RRB's financial statements and was not audited by the RRB's auditors.

In fiscal year 2006 and future years, the RRB will continue to coordinate activities with the NRRIT. The RRB will assure that funds not needed in the short term to pay benefit payments, pay administrative expenses, and provide appropriate fund balances are made available to the NRRIT for investment purposes. The NRRIT will, in turn, provide funds to the RRB, or a properly authorized disbursement agent, when needed to pay future benefit payments.

Summary Results of Annual Audit

The RRB financial statements for fiscal year 2005 were audited by the RRB's OIG. The OIG auditor's report contained the following:

- Opinion on the Financial Statements,
- Report on Internal Control, and
- Compliance with Laws and Regulations.

Opinion on the Financial Statements

The OIG issued an unqualified, "clean," opinion on the RRB's financial statements, as follows:

"The RRB's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, combined budgetary resources, and reconciliation of net cost to budgetary resources as of and for the fiscal years ending September 30, 2005 and 2004."

Report on Internal Control

In its evaluation of internal controls, the OIG reported on material weaknesses in the RRB's information security program, performance measurement program and the actuarial projection process. The OIG also described reportable conditions related to compliance with the Prompt Payment Act and accounting for leases. The OIG's full report is available starting on page 81.

Compliance with Laws and Regulations

The OIG report stated: "Our tests of compliance with selected provisions of laws and regulations disclosed two instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or Office of Management and Budget (OMB) guidance as described below.

"The RRB has not implemented provisions of the Railroad Retirement and Survivors Improvement Act of 2001 that require railroad retirement benefits be disbursed by a qualified non-governmental financial institution, rather than the U.S. Department of the Treasury. The agency was prohibited from using funds appropriated under the Consolidated Appropriations Act of 2005 to implement this provision; agency management is currently seeking legislative relief from this requirement.

"The RRB has not fully complied with the Prompt Payment Act. The systems and procedures that the agency uses to implement the Act have not been effective in ensuring that interest is paid to vendors in accordance with the requirements. The RRB does not identify all invoices on which interest should be paid and does not pay the correct amount of interest when a late

payment is recognized. In addition, controls are not adequate to ensure that required restrictions on early payment have been properly implemented.”

Program, Operations, and Financial Performance and Results

During fiscal year 2005 (ended September 30, 2005), railroad retirement and survivor benefit payments totaled \$9.2 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled \$72.6 million in fiscal year 2005, net of recoveries. During fiscal year 2005, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to almost \$1.2 billion to about 127,000 beneficiaries.

In fiscal year 2005, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2005 included:

- Providing payments to 634,000 retirement and survivor beneficiaries.
- Providing payments to 10,000 unemployment insurance beneficiaries.
- Providing payments to 21,000 sickness insurance beneficiaries.
- Processing 26,813 (through May 2005) retirement, survivor, and disability applications for benefits.
- Processing 181,856 (through May 2005) applications and claims for unemployment and sickness insurance benefits.
- Issuing 265,431 (as of June 10, 2005) certificates of employee railroad service and compensation.

During fiscal year 2005, the RRB used 46 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These measures were established in the RRB's Operating Plan for Fiscal Year 2005, and were accomplished with direct appropriations of \$102.543 million for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance objectives, actual full-year performance results for fiscal year 2005 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2005, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Provide Excellent Customer Service. We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2005, we expect that overall payment accuracy rates will exceed 99 percent, and that all timeliness goals will be met.

Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2005, we expect to meet or exceed our performance goals.

Strategic Goals and Objectives

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor benefits. We have also embraced new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of our processing of initial railroad retirement and survivor applications and claims for unemployment and sickness insurance benefits. The RRB's web site (www.rrb.gov) has also been very well-received by the public.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from recent legislative changes to the RRA, and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient, and secure agency operations. To effectively address these issues, the RRB's Strategic Plan for 2003-2008 has established the following two strategic goals on which we will focus our efforts.

Provide excellent customer service.

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

Serve as responsible stewards for our customers' trust funds and agency resources.

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded, and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies, which will encompass many areas, also reflect the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in five key areas:

- Strategic Management of Human Capital,
- Competitive Sourcing,
- Improved Financial Performance,
- Expanded Electronic Government, and
- Budget and Performance Integration.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation, and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

The next page begins a discussion of our key performance indicators.

Discussion of Key Performance Indicators

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

Key Performance Indicator 1: Initial Recurring Retirement Payment Accuracy

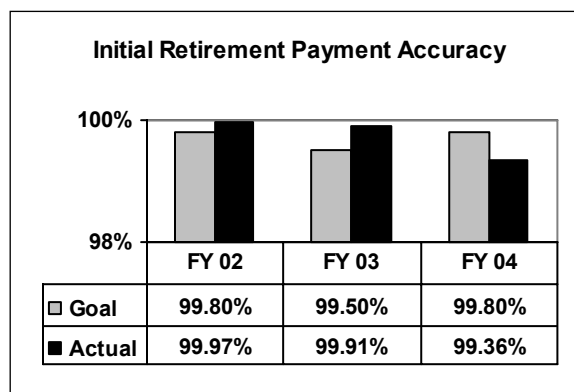
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits. (Projected goals are based on the appropriations we receive each fiscal year.)

FY 2005 Goal: 99.00%
Our FY 2005 Performance: Not available

Full-year data will be available in fiscal year 2006.

FY 2004 Goal: 99.80%
Our FY 2004 Performance: 99.36%

We did not meet our goal. At the time we issued the Fiscal Year 2004 Annual Program Performance Report, we did not have full-year payment accuracy data available. The numbers shown here reflect our final fiscal year 2004 performance. The variability in our sample error dollar amounts impacts our recurring payment accuracy rate. In 2004, the 3 sample cases with the highest dollar error amounts comprised 75 percent of the total erroneous amounts. The high dollar value of these 3 cases caused us to fall short of our fiscal year 2004 target.



Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in coming years.

Data Definition: This is the percentage of the dollar value of initial recurring retirement benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases. For years prior to fiscal year 2003, the initial review excludes errors in temporary work deductions.

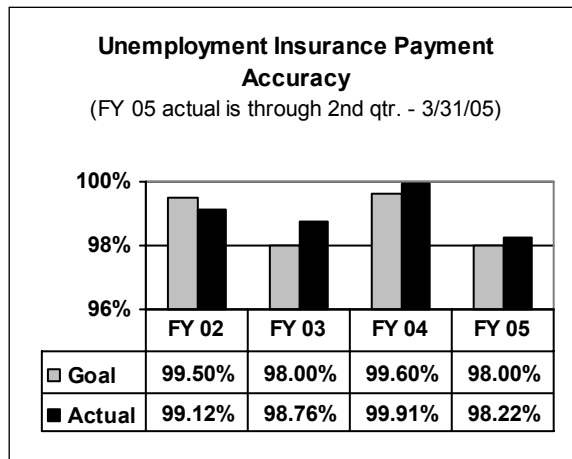
Key Performance Indicator 2: Unemployment Insurance Payment Accuracy

Our strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent. (Projected goals are based on the appropriations we receive each fiscal year.)

FY 2005 Goal: 98.00%
Our FY 2005 Performance: 98.22%
through the 2nd quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the second quarter of fiscal year 2005. Full-year data will be available in fiscal year 2006.

FY 2004 Goal: 99.60%
Our FY 2004 Performance: 99.91%



Data Definition: This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

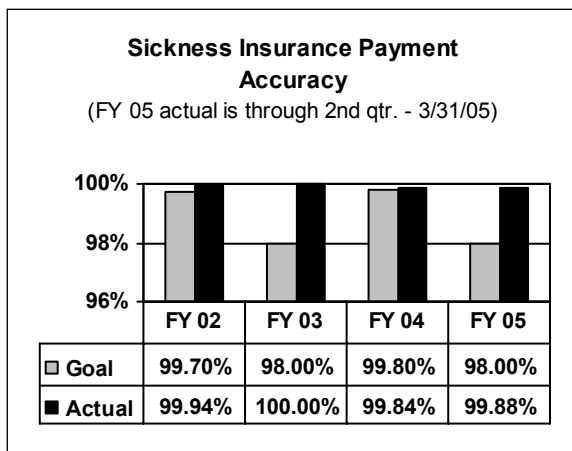
Key Performance Indicator 3: Sickness Insurance Payment Accuracy

Our strategic goal is to achieve a railroad sickness insurance benefit payment accuracy rate of at least 99 percent. (Projected goals are based on the appropriations we receive each fiscal year.)

FY 2005 Goal: 98.00%
Our FY 2005 Performance: 99.88%
through the 2nd quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the second quarter of fiscal year 2005. Full-year data will be available in fiscal year 2006.

FY 2004 Goal: 99.80%
Our FY 2004 Performance: 99.84%



Data Definition: This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

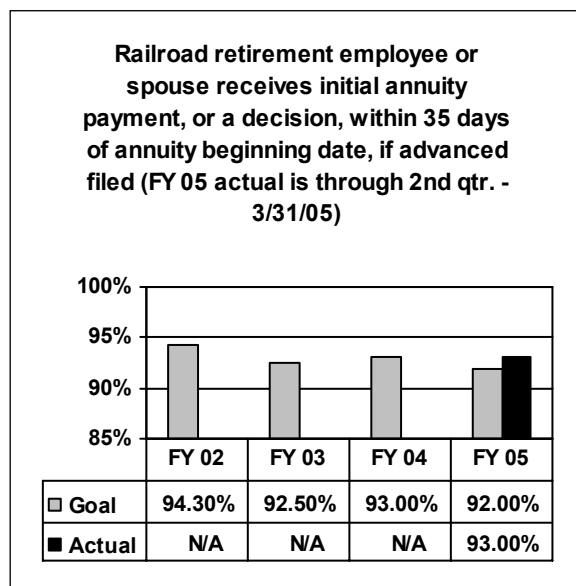
Key Performance Indicator 4: Timeliness of Initial Railroad Retirement Annuity Payments (if advanced filed)

FY 2005 Goal: 92.00%
Our FY 2005 Performance: 93.00%
 through the 2nd quarter

We are processing these payments on a timely basis (within the 35-day standard). See discussion below.

FY 2004 Goal: 93.00%
Our FY 2004 Performance: Not Available

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. Nevertheless, we have historically reported our performance as the percent of retirement age and service applications for which all RRB processing is completed within 30 days, allowing 5 days to account for Treasury or U.S. Postal Service (USPS) handling. A recent audit by the RRB's OIG (05-05, dated May 17, 2005), however, found several technical problems with the data which are described below. For fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time. We still believe, however, that the results reported for fiscal year 2005 remain a fair representation of the service our customers receive.



Discussion and Corrective Actions: Using sample data for July 2004, the OIG found that only 63.80 percent of the advanced filed applications were processed within the stated 30-day internal processing measure. The agency would have reported 93.23 percent for the same sample period. The discrepancies in reporting were caused by several issues with our tracking.

One significant issue, which has now been corrected for fiscal year 2005 reporting, was a long-standing program flaw that caused certain cases to be categorized and counted as non-advanced filing when they were actually advanced filed. (See performance indicator 5.) For this reason, we have now excluded performance data for prior years.

Another problem is that our automated tracking stops at the end of the adjudicative process, and therefore does not include all internal processing time. There are usually several days between the end of the retirement adjudicative process and the point where the payment is certified to Treasury, or the letter is released to the USPS. We believe that the impact of this flaw is mitigated by the fact that while we allow 5 days for Treasury and USPS handling, within the 35-day customer service standard, in fact, the Treasury actually deposits funds within 2 business days of receipt of the RRB's authorization for payment. Similarly, the USPS standard is to deliver first class mail within 3 business days. Agency review of the same sample data the OIG used in the audit found that 92.93 percent of the advanced filed cases were authorized for payment within 32 days of the annuity beginning date. The percentage goes up to 93.7 percent at 33 days. Thus, it is reasonable to assume that the customer would have received payment or a letter within the 35-day published standard.

Our retirement adjudicative system is due to be replaced in 2006. At that point, we will be able to track our performance for the entire internal processing time. Until then, we will annotate our performance data to reflect that our tracking includes only adjudicative processing time.

In addition, the RRB's OIG found a reporting flaw in our measurement process which affected 2 out of 150 cases in their sample. We expect to correct this early in 2006. We are also investigating appropriate alternatives to articulating our customer service standards and corresponding measures so that they are more precise.

Finally, as a result of a related OIG recommendation, we have instituted a process whereby responsible managers attest that the performance data they submit provides a valid, reliable, and accurate presentation of performance.

In conclusion, we are taking a multi-faceted approach to resolve all issues related to this performance indicator. In the meantime, as stated above, we are confident that the data reported for fiscal year 2005 fairly represent the service we are delivering to our customers.

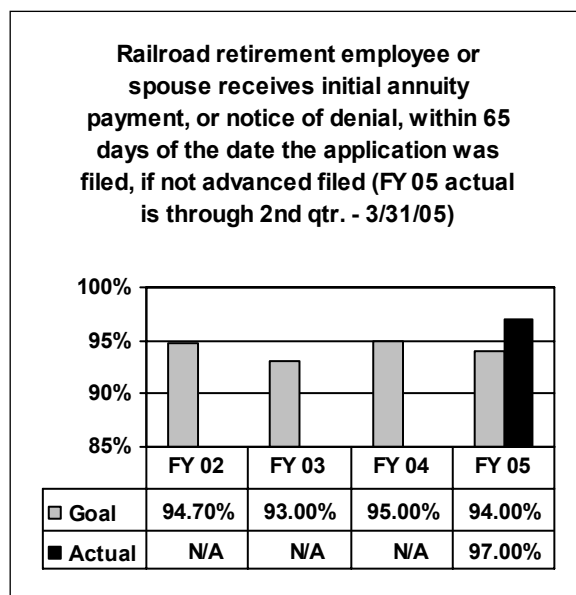
Key Performance Indicator 5: Timeliness of Initial Railroad Retirement Annuity Payments (if not advanced filed)

FY 2005 Goal: 94.00%
Our FY 2005 Performance: 97.00%
 through the 2nd quarter

We are exceeding our goal. See discussion below.

FY 2004 Goal: 95.00%
Our FY 2004 Performance: Not Available

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. Nevertheless, we have historically based our performance calculation on the percent of retirement age and service applications for which RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling. A recent audit by the RRB's OIG (05-05, dated May 17, 2005), however, found several technical problems with the data which are described in the discussion of the previous key indicator. For fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time. We still believe, however, that the results reported for fiscal year 2005 remain a fair representation of the service our customers receive.



Discussion and Corrective Actions: Using sample data for July 2004, the OIG found that 95.19 percent of the non-advanced filed applications were processed within the stated 60-day measure. The agency would have reported 98.65 percent for the same sample period. Thus, actual performance still exceeded the targeted level. Note that while the issues described in detail for key indicator 4 apply to these non-advanced filed cases as well, the net impact on actual performance levels was not as significant.

Key Performance Indicator 6: Timeliness of New Survivor Benefit Payments

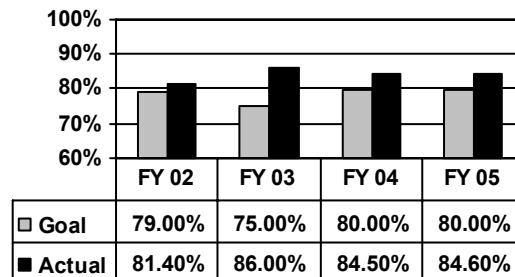
FY 2005 Goal: 80.00%
Our FY 2005 Performance: 84.60%
through the 2nd quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2004 Goal: 80.00%
Our FY 2004 Performance: 84.50%

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling.

Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of application transfer to SSA within 65 days of the annuity beginning date, or date filed (FY 05 actual is through 2nd qtr. - 3/31/05)



We have recently become aware of inconsistencies in the way we measure the timeliness of this indicator that have resulted in understating our performance. The data shown above reflects those understatements. We have revised our reporting process to ensure greater accuracy in future reports of survivor timeliness.

Key Performance Indicator 7: Timeliness of Spouse to Survivor Benefit Payment Conversions

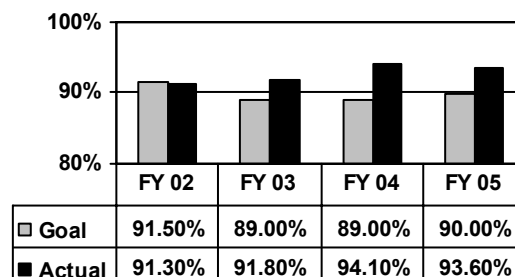
FY 2005 Goal: 90.00%
Our FY 2005 Performance: 93.60%
through the 2nd quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2004 Goal: 89.00%
Our FY 2004 Performance: 94.10%

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where RRB processing is completed within 30 days, allowing 5 days to account for Treasury or USPS handling.

Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death (FY 05 actual is through 2nd qtr. - 3/31/05)



Key Performance Indicator 8: Timeliness of Unemployment or Sickness Insurance Payments

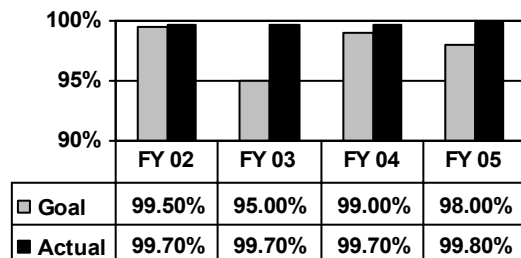
FY 2005 Goal: 98.00%
Our FY 2005 Performance: 99.80%
through the 2nd quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2004 Goal: 99.00%
Our FY 2004 Performance: 99.70%

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of claims where RRB processing is completed within 10 days, allowing 5 days to account for Treasury or USPS handling.

Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt (FY 05 actual is through 2nd qtr. - 3/31/05)



Key Performance Indicator 9: Timeliness of Disability Decisions

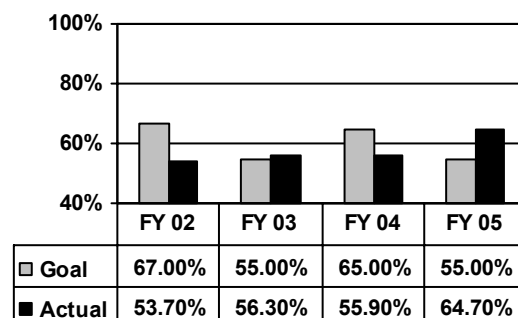
FY 2005 Goal: 55.00%
Our FY 2005 Performance: 64.70%
through the 2nd quarter

We are exceeding our goal. Experienced claims examining staff and the timely performance by the contractor for consultative medical examinations needed to make disability decisions are contributing to the improved level of performance.

FY 2004 Goal: 65.00%
Our FY 2004 Performance: 55.90%

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where RRB processing is completed within 100 days, allowing 5 days to account for USPS handling.

Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed (FY 05 actual is through 2nd qtr. - 3/31/05)



Key Performance Indicator 10: Return on Investment in Program Integrity Activities

FY 2005 Goal: \$3.80 : \$1
Our FY 2005 Performance: Not available (until December 2005)

FY 2004 Goal: \$4.50 : \$1
Our FY 2004 Performance: \$4.84 : \$1

We exceeded our goal. Our fiscal year 2004 goal was to achieve a return of \$4.50 for each dollar spent on program integrity activities. We achieved a rate of return of \$4.84 for each dollar spent.

As part of our fiduciary responsibilities to the rail community, we must ensure that the correct amount of benefits is being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, CMS' utilization and death records, OPM's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the Inspector General may pursue more aggressive collection methods, which include civil and criminal prosecution.

Data Definition: This is the ratio of the sum of the dollar recoveries and savings, per labor dollar spent.

